

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6736

BILL NUMBER: HB 2017

DATE PREPARED: Jan 24, 1999

BILL AMENDED:

SUBJECT: School income tax credit.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides an adjusted gross income tax credit for 50% of charitable contributions to public and accredited private schools located in Indiana for taxable years beginning after December 31, 1998. The credit may not exceed \$200 in the case of an individual filing a single return or \$400 in the case of individuals filing a joint return. The bill provides that in the case of a corporation, the credit may not exceed the lesser of 10% of the corporation's adjusted gross income tax or \$5,000.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: There will be additional administrative costs to the Department of Revenue for changing forms, instructions and computer programs associated with this new tax credit. These expenses will come from their existing budget.

Explanation of State Revenues: A tax credit for charitable donations to public or accredited private schools or to related corporations or foundations will decrease income tax revenue by an indeterminable amount. The income tax credit for tax years beginning January 1, 1999 is limited to 50% of the charitable contributions or a maximum of \$200 for a single taxpayer or \$400 for taxpayers filing a joint return. The tax credit is limited to 10% of a corporation's adjusted gross income tax or \$5,000. The credit may not exceed the taxpayer's tax liability.

In 1996, approximately 79,658 individual income taxpayers claimed \$7.4 M in tax credits for contributions to higher education institutions. Based on a sample of corporate tax returns, corporations claimed approximately \$500,000 in the college credits during a tax year.

According to the Department of Education, \$5.3 M was contributed to public schools that was classified as gifts, donations and bequests in FY 93, \$6.9 M was contributed in FY 94, \$9.4 M in FY 95, \$9.5 M in FY 96 and FY \$7.7 M in FY 97 for an average annual increase of 8% in contributions. It is not known how many

individuals or corporations made contributions which would be above the maximum allowable credit. However if these contributions remain stable and it is assumed that all of these contributions would qualify for the credit, there could be a revenue loss of \$9 M annually for contributions to public schools.

No information is available on how many individuals or corporations make contributions to private accredited schools. However, according to the Department of Education projections, there will be 105,000 school children in private kindergartens through high schools in 1998. If half of these families or approximately 50,000 taxpayers qualified for a \$300 tax credit for contributions to private schools, the reduction in income tax revenue would be \$15 M annually. If parents or taxpayers of all these students (approximately 105,000) took an average credit of \$300, there could potentially be a revenue loss of \$31.5 M.

Contributions from corporations to private high schools could also be comparable to those contributions given to institutions of higher education. This new tax credit could also generate an additional revenue loss from corporate income taxes of approximately \$2.5 M to \$5 M annually.

This tax credit is applicable to tax years beginning January 1, 1999 and would affect revenue collections in FY 2000. **The total annual revenue loss would be approximately \$26.5 M to \$40.5 M in FY 2000 and years after.**

Income tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: If this tax credit encourages more individuals to make contributions to public schools, there could be additional revenue generated for school general funds.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Public School Corporations.

Information Sources: Department of Revenue, Department of Education.